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Georgia's Gas Deregulation Is Messy,
But Offers a Lesson to Other States

By KELLY GREENE and RICK BROOKS
Staff Reporters of THE WALL STREET JOURNAL

For 13 consecutive months after Georgia deregulated natural-gas service,

Mark McBee didn't receive a bill. Then they all arrived on the same day

--
from a company that he says signed him up without his permission.

"I support anything that is deregulated from government control, but these companies have really blown it," says Mr. McBee, who lives in Duluth, Ga., and is Hertz Corp.'s director of properties in the Southeast.

When Georgia became the first state to completely deregulate natural-gas

service in 1998, the new competition was supposed to bring better service

and lower bills. But the results so far have been such a mess that many consumers long for a return to the old monopoly.

Angry gas users have swamped state utilities regulators with more than 16,000 complaints since Georgia let 15 companies start selling natural gas directly to consumers. Many customers claim their bills are higher, even excluding the recent surge in natural-gas prices. Many statements arrive months late -- if at all. Three natural-gas retailers have filed for bankruptcy-court protection, and others have quit the business, leaving the survivors to absorb a financial and public-relations beating.

"If they ever deregulate electricity here, I'll have to find another state to live in," says Bob Durden, exiting chairman of

Georgia's Public Service Commission,
the state agency overseeing gas
marketers.

Georgia's natural-gas companies acknowledge many of the problems, and
say they are working hard to fix them. "There have been significant
improvements just since summertime in reducing complaints," says Roger
Schrum, spokesman for one gas marketer, Scana Energy, a unit of Scana
Corp. of Columbia, S.C. "The marketers are responding to their customers

and getting their billing systems worked out."

But just as California's disastrous experience with deregulation of
electricity
leads other states to have second thoughts on deregulation, Georgia's
experience is a lesson for some two dozen other states in the process of
at
least partially deregulating natural-gas service.

"Other states need to be careful about moving ahead so fast," says
Kenneth W. Costello, a senior economist at Ohio State University's
National
Regulatory Research Institute.

While the situation isn't as dire as in California, where the state is
trying to
rescue two leading utilities and keep electricity flowing, it will be
hard to
erase the widespread perception that Georgia botched the deregulation of
natural gas.

A review of hundreds of e-mail messages to Georgia's utilities
commission
reveals that many customers simply can't figure out what they are paying
for, and that the marketers made the situation worse with haphazard
billing.

John Harkins, who lives in Rome, Ga., says Georgia Natural Gas, a unit
of
SouthStar Energy Services LLC, which is partly owned by the former
monopoly gas provider, mistakenly shut off his gas right before
Christmas in
1999.

When the temperature in his house fell below 50 degrees, "I finally took a hacksaw and broke off the lock and turned the heat on myself," he says. Then in October, Mr. Harkins got 12 bills at once, including one with a \$600 error.

A spokesman for Georgia Natural Gas says there is no record that the company directed anyone to disconnect Mr. Harkins's gas service.

The company "acknowledges fully that it made a mistake" with his bill, but it corrected it and set up a payment plan "with no interest or late fees of any kind," the spokesman adds.

Ironically, the gas marketers' initial popularity was the trigger for many customers' current woes. When the marketers entered Georgia, they promised such perks as \$50 of free groceries or frequent-flier miles. Residential customers signed up quickly. The marketers -- which included start-ups -- were overwhelmed by the response. Their billing systems and customer-service staffs couldn't handle the onslaught.

Residential and small-business customers also complain that the new system's fixed overhead charges often are significantly higher than their entire bill used to be, notes James Hurt, Georgia's consumer utility counsel for five years before he recently took another job in the state's consumer-affairs office.

Profit Pipeline

Those fixed charges go to Atlanta's AGL Resources Inc., parent of the utility that lost its monopoly but still maintains pipelines and delivers gas.

Clayton Preble, an AGL senior vice president, defends its fees as reasonable, but acknowledges that a change in the way it billed customers "turned out to be a source of discomfort." That change, which resulted in hefty bills during summer months when customers use little gas, will be

undone next month.

Meanwhile, embarrassed state officials are scrambling to fix other snafus. In December, the utilities commission beefed up its rules to give consumers as much time to pay late bills as it takes for a marketer to send them.

Mr. Durden, who opposed deregulation, has been trying to drum up support among state lawmakers for a cap on fees charged to residential and small-business customers for gas delivery. Georgia lawmakers are debating whether to make changes to the state's deregulation law, and have asked utility commissioners to come back to them later this month with specific ideas.

But state officials hold little hope for a complete fix. Since the circumstance that triggered the shift in the first place -- the federal government's deregulation of gas delivery to industrial customers -- isn't changing, "it would be very difficult to put the genie back in the bottle," says Georgia Sen. Sonny Perdue, a Democrat who led the deregulation effort.

The gas industry wants to stay the course. New price caps could force marketers out of business, they claim, since rising wholesale gas prices could make it impossible for the companies to break even. As prices climb, some Georgia gas users who locked in at fixed rates might wind up better off than customers in highly regulated states where utilities simply pass along price increases, says Tim Sheehan, Southeast business manager of Shell Energy Services Co., a unit of Royal Dutch/Shell Group.

Confusion Reigns

Unlike the 23 other states in the midst of deregulating gas service, Georgia forced all residential customers to choose a marketer, rather than giving them an option to remain a customer of AGL's 144-year-old Atlanta Gas

Light Co. unit.

The result: widespread dismay. A survey last year by Xenergy Inc., a Burlington, Mass., consulting firm, showed 46% of Georgia's gas customers wish deregulation never happened.

Mr. Hurt, the consumer watchdog, says he has had billing snafus of his own.

But he worries what will happen to customers so confused by their bills that

they are refusing to pay. For example, Nancy Rietman, an insurance-risk manager who lives in Powder Springs, Ga., estimates she has spent 20 or 30 hours on the phone with two different gas marketers trying to make sense of her family's monthly bills. For several months, it looked as if Scana

Energy wasn't applying all her payments to the family's balance due. She

finally gave up. "I just kept paying what they said I owed them," she says,

figuring she probably paid Scana about \$520 more than she actually owed.

Fed up, Mrs. Rietman dumped Scana in October, switching to Georgia Natural Gas. Then another Scana bill arrived in the mail for \$78.64 -- with

no details on what she is being charged for. "We're not paying them until we

know what we're paying for," she says.

Mr. Schrum, the Scana Energy spokesman, concedes a mix-up over Mrs. Rietman's address led to a four-month delay in sending her family's first bill.

But he adds that Scana worked with her to develop a workable payment plan and still expects her to pay the final bill. "They still owe us," he says.

Write to Kelly Greene at kelly.greene@wsj.com¹ and Rick Brooks at rick.brooks@wsj.com²

Barbara R. Alexander

From: Gerry Norlander [ganorlander@pulp.tc]
Sent: Tuesday, January 02, 2001 8:09 AM
To: Barbara R. Alexander (E-mail)
Subject: FW: Gas Marketer Failure in Va PMA OnLine Power Report Com

-----Original Message-----

From: GANRLNDR@aol.com [mailto:GANRLNDR@aol.com]
Sent: Friday, December 29, 2000 11:03 AM
To: GANORLANDER@pulp.tc
Subject: Gas Marketer Failure in Va PMA OnLine Power Report Com

Customer-Choice Pilot Program Loses First Licensed Energy Supplier

(December 29, 2000)

United Energy of Virginia, a victim of the high-flying natural-gas market, has become the first competitive energy supplier licensed by the state of Virginia to announce it will close its doors. **What that means is 1,600 natural gas customers, including 97 businesses, in Northern Virginia will lose their gas supplier on Jan. 1 and be forced back to their utility company at much higher rates.** Consider United's story as a preview of what lies ahead for some consumers when natural gas and electricity rates for all Virginians are set by competition rather than by government regulation. Some competitors will fail. Some customers may suffer. For three years, United has been supplying gas to consumers in the Manassas area as part of the customer-choice pilot program of Columbia Gas of Virginia, the state's largest gas distribution utility. Columbia launched the experimental program in late 1997 to see what benefits competition among suppliers might bring to the residential and business customers to whom it delivers gas over local pipelines. Washington Gas operates a similar pilot program in Northern Virginia, and Dominion Virginia Power and American Electric Power have begun pilot programs for some of their electricity customers. **United, a subsidiary of a Maryland propane distributor, was called before the State Corporation Commission last week for breaking state rules for licensed competitive gas suppliers. Although other gas companies have exited the Columbia pilot (one without any notice to customers), United is the first licensed supplier operating under state rules to pull out.** The staff of the SCC's energy division had charged United with failing to give customers the required 30 days' notice before cutting them off. Most customers began receiving their notices around Dec. 12 but service is to end Jan. 1. The commission rejected United's request for a waiver from that rule and also took away United's license to sell natural gas in Virginia. But the commission rejected the staff's request that it enjoin United from cutting off customers until Jan. 12, the end of the required 30-day notice period. It noted that customers who feel harmed can bring their own legal action against the company. Robert Blake, manager of United's natural gas division, told the commission that on Nov. 29 its contracted supplier, VP Energy, notified United that it was closing its doors. That, Baker said, left him to scramble to find gas on the open market to supply United's customers in December. United then sought Columbia's help in finding a gas supplier

for 2001, but an explosion in natural gas prices in mid-December made it impossible to find another supplier at rates that would allow the company to serve its customers without losing enormous sums of money. Spot prices for natural gas, less delivery charges, were running well over \$10 per 1,000 cubic feet at mid-month and futures prices for January delivery were setting records at over \$9 per 1,000 cubic feet. Prices have dropped off some since then but are still roughly three times above last year's levels. While United found a couple of willing suppliers for next year, what they would charge for gas far exceeds the price at which United has contracted to sell gas to consumers. "It became evident . . . that we had to exit the market," Blake said. Blake said his company would lose up to \$300,000 in January if it had to continue supplying gas under terms of current agreements with its customers. Although the SCC staff wanted United to stay in business through Jan. 12, that would have meant through the end of January because United commits gas to the Columbia system on a monthly basis, Blake said.

What all this means for many of United's residential customers is that beginning Jan. 1, they will be paying Columbia Gas of Virginia \$14 per 1,000 cubic feet of gas, which includes delivery charges, rather than the \$7.25 they had contracted to pay United. They don't have the option of switching to another competitive supplier, because none is taking on new customers. That may sound unfair and confusing. Competition among energy suppliers isn't going to be as simple, relatively speaking, as competition among phone companies. Prices are going to be more volatile for energy for a variety of reasons, including the impact of weather and the variability of supply.



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The Ohio Consumers' Counsel

News & Alerts

Residential Utility Advocate

FOR IMMEDIATE RELEASE

The Ohio Consumers' Counsel Files Complaints Against Natural Gas Suppliers Participating in Ohio's Choice Programs

Contact:
Carah Brody (614) 466-9547

COLUMBUS, Ohio, Feb. 6, 2001 - The Ohio Consumers' Counsel (OCC), the residential utility advocate, filed two similar complaints today with the Public Utilities Commission of Ohio (PUCO) against suppliers participating in Ohio's natural gas choice programs. The complaints against Summit Natural Gas, Inc., and The Energy Cooperative, Cnergy Resources, Inc. and Licking Rural Electrification, Inc., both allege violations of choice program tariffs and Ohio law.

This marks the fourth time since October 2000 that the OCC has taken action against suppliers in Ohio's natural gas choice programs. Last fall, the OCC filed a complaint with the PUCO against Energy Max requesting the PUCO find Energy Max in violation of Columbia's tariff by failing to deliver natural gas to its 8,000 residential customers for the month of August. In December the OCC filed a lawsuit against D&L Gas Marketing, a participant in the Columbia Gas CHOICE® program, for breaching service contracts with more than 4,500 of its residential consumers.

The OCC's complaint against Summit is a result of an investigation and unsuccessful attempts at negotiating a resolution with the supplier on behalf of its 3,100 residential customers. Columbia Gas terminated Summit on December 28, 2000 from its Customer CHOICE® program for failure to deliver gas to its customers from Dec. 6 through Dec. 12.

OCC's complaint alleges that when Summit served residential consumers under one and two year fixed rate contracts, as well as variable rate contracts. Summit's rates ranged from \$3.39 per thousand cubic feet to \$6.64 per thousand cubic feet.

The complaint also alleges that Summit failed to deliver natural gas, Columbia Gas was forced to step in and serve Summit customers at its higher regulated rate. At that time, customers reverted to Columbia Gas, whose rate was 73.75 cents per hundred cubic feet. Today, the Columbia Gas regulated rate is 86.478 per hundred cubic feet.

Customers who were returned to Columbia Gas continue to have the option of remaining with the company or choosing another natural gas supplier.

Robert S. Tongren, Consumers' Counsel said, "the OCC remains supportive of the opportunity to choose a natural gas supplier, however the recent volatility of the market precludes residential consumers from viable options."

The OCC also filed a complaint against The Energy Cooperative, Cinergy Resources and Licking Rural Electrification for failure to deliver gas and several other alleged tariff violations. All three companies are named in the complaint because the OCC believes each one was somehow involved in providing natural gas to the residential consumers involved in this dispute.

The complaint alleges that The Energy Cooperative sent a letter to its 14,000 residential customers in September 2000 notifying them that their gas supply agreement would be terminated on October 31, 2001, thereby prematurely transferring customers back to CG&E's higher market rate.

After initial negotiations with The Energy Cooperative, the complaint alleges that the supplier returned a substantial number of fixed rate customers back to their original contracted offers. However, OCC alleges that the company failed to return all affected customers to the fixed rate they had contracted to receive and made no attempt to compensate customers for the time they were being billed the higher market rate through CG&E.

The complaint further alleges that in January 2001, The Energy Cooperative again violated the CG&E choice program tariffs by failing to deliver gas to its customers since the first of the year. As a result, The Energy Cooperative was terminated from the choice program and all of the company's customers were returned to CG&E's service. At the time of The Energy Cooperative's termination customers were on a fixed rate contract with an average rate of \$3.40 per thousand cubic feet, CG&E's rate was \$7.41 per thousand cubic feet.

The OCC requests the PUCO find that the companies involved in both complaints acted inappropriately and in violation of natural gas choice tariffs and Ohio law, thereby giving OCC the opportunity to file a lawsuit in common pleas court seeking monetary damages for affected consumers.

The OCC monitors all of Ohio's natural gas choice programs to protect more than 3 million natural gas customers statewide. On January 19, the OCC filed a petition with the PUCO requesting that it conduct a review of the state's natural gas choice programs, which have faced significant setbacks. The OCC is concerned that even though customers in the Columbia Gas of Ohio Customer CHOICE® program have saved \$90 million as a result of choosing a new gas supplier, consumers are left disillusioned that the program has failed.

"We are doing everything within our power to ensure the safety and success of Ohio's natural gas choice programs and will continue to seek appropriate compensation for each and every consumer affected by natural gas suppliers that fail to provide reliable natural gas service," said Tongren.

The Ohio Consumers' Counsel (OCC) is the legal representative and residential consumer utility advocate serving as a resource for individuals who have questions and concerns, or would like more information, about the services provided by their publicly owned electric, natural gas, telephone and water companies. The agency also educates consumers about utility issues and resolves complaints from individuals. To receive a listing of natural gas suppliers in the Columbia Gas area, request utility information brochures, schedule a presentation or file a utility complaint, residential consumers may contact 1-877-PICKOCC (1-877-742-562).

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The Ohio Consumers' Counsel

News & Alerts

Residential Utility Advocate

FOR IMMEDIATE RELEASE

OHIO CONSUMERS' COUNSEL FILES LAWSUIT AGAINST NATURAL GAS SUPPLIER

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COLUMBUS, Ohio, Dec. 8, 2000 - The Ohio Consumers' Counsel (OCC), the residential utility advocate, filed a lawsuit today in the Franklin County Court of Common Pleas against D&L Gas Marketing, a natural gas supplier based in Youngstown, Ohio. The lawsuit alleges D&L breached its contracts with more than 4,500 customers in the Columbia Gas of Ohio Customer CHOICE® program.

The action is a result of an investigation and unsuccessful attempts at negotiating a resolution with D&L. The OCC's complaint alleges that under the terms and conditions of D&L's contract, the company was allowed to terminate service with a customer at the end of the initial 12-month contract term or if a customer failed to make payments. Because D&L withdrew from the program and did not follow its conditions for termination, the OCC believes that D&L has breached its contract with 4500 residential consumers. Therefore, the OCC is seeking a judgment declaring D&L in violation of Ohio law and awarding monetary damages to all affected customers.

In late July, early August, D&L sent a letter to each of its 4,500 customers giving notice that as of November 1, 2000 the company would withdraw as a natural gas supplier from the Columbia Gas choice program. Customers, who had enrolled under a 12-month service contract, were given 90 days to switch to another natural gas supplier or be returned to Columbia Gas at its higher regulated rate.

Customers of D&L had contracts with fixed rates between \$0.37 per ccf and \$0.48 per ccf. Customers who did not select another supplier were returned to Columbia Gas and were subject to its November 1 rate of \$0.74 per ccf. "D&L's actions have caused financial harm to its customers. As the residential utility advocate the OCC is determined to see that all affected customers receive the compensation they deserve," said Robert S. Tongren, Consumers' Counsel.

This marks the second time since October that the OCC has sued a natural gas

supplier in the Columbia Gas choice program for failure to meet contractual obligations. The OCC filed a complaint with the Public Utilities Commission of Ohio (PUCO) on October 27, 2000 against Energy Max for failure to provide reliable service and gas supply to its customers for the month of August 2000.

"We cannot allow someone to jeopardize the economic democracy that this choice program has provided Ohio consumers," Tongren said. "Too many people have worked too hard to make Ohio's program a national model. We are taking this action now to maintain the integrity of the choice program."

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